



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SELECTHEALTH BENEFIT ASSURANCE COMPANY, INC.

of

Murray, Utah

as of

December 31, 2017



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March 1, 2019

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, a multi-state examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

SELECTHEALTH BENEFIT ASSURANCE COMPANY, INC.
Murray, Utah

hereinafter referred to in this report as “the Company or SHBAC,” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was conducted as of December 31, 2013. This full scope examination covers the period of January 1, 2014 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204(7)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There are no significant findings for inclusion in this report.

COMPANY HISTORY

General

In 1975, the Church of Jesus Christ of Latter-day Saints transferred all assets and liabilities of its hospital system to a Board of Trustees, which in turn created Intermountain Health Care, Inc. (Intermountain), a nonprofit tax exempt 501(c)(3) charitable organization, to own and operate the hospital system. On December 27, 1983, Intermountain incorporated SelectHealth, Inc. (SelectHealth) under the provisions of the Utah Nonprofit Corporation and Cooperative Association Act, for the purposes of developing and administering financial mechanisms for its network of health care services. SelectHealth is a 501(c)(4) tax-exempt social welfare organization, licensed as a health maintenance organization (“HMO”) serving over 850,000 commercial and government program members in Utah and Idaho. The sole controlling member of SelectHealth is Intermountain. In 1992, SelectHealth formed SHBAC, a wholly owned for-profit life insurance company.

Dividends and Capital Contributions

The Company did not declare or pay any dividends to the sole shareholder during the examination period.

There were no capital contributions to the Company during the examination period.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Company's bylaws indicate that the Board of Directors may have from four (4) to thirty (30) directors. The following persons served as directors of the Company as of December 31, 2017:

Name and Location	Title and Principal Occupation
Karla Kay Bergeson Washington, UT	Retired Corporate Attorney
Mark Richard Briesacher, MD Salt Lake City, UT	Senior Vice President, Chief Physician Executive, and President, Intermountain Medical Group
Spencer Peterson Eccles Salt Lake City, UT	Managing Director Cynosure Partners LLC
Maria Jean Garciaz Salt Lake City, UT	Executive Director NHS (NeighborWorks Salt Lake)
Daniel Gerald Gomez Sandy, UT	President Gomez Corp, Financial Advisors & Insurance
Alexander Marc Harrison, MD Salt Lake City, UT	President and Chief Executive Officer Intermountain Healthcare
Keven Jay Jensen Sandy, UT	Chief Executive Officer Go Solar Group
LeeAnne Burke Linderman Salt Lake City, UT	Executive Vice President, Enterprise Retail Banking Zions Bancorporation
Patricia Rae Richards Salt Lake City, UT	President and Chief Executive Officer SelectHealth, Inc. SelectHealth Benefit Assurance Company, Inc.
David Brett Sanford Highland, UT	Vice President and Corporate Controller CHG Healthcare Services, Inc.
Scott David Sperry Sandy, UT	Senior Vice President, Finance O.C. Tanner Company
Maria Rocio Summers Salt Lake City, UT	Founder and Consulting Principal RS International Business Consulting, LLC
Andrea Poole Wolcott Salt Lake City, UT	Retired Banking Executive
Albert Rene' Zimmerli Sandy, UT	Executive Vice President and Chief Financial Officer Intermountain Healthcare

The officers of the Company as of December 31, 2017 were as follows:

Name	Title
Patricia R. Richards	President and Chief Executive Officer
Jerry R. Edgington	Vice President and General Manager, Idaho
Russel J. Kuzel, MD	Vice President and Chief Medical Officer
Thomas J. Risse	Vice President and Chief Financial Officer
Robert L. White	Vice President and Chief Operating Officer
Gregory M. Johnson	Treasurer
Kristin R. McCullagh	Secretary

The Company's committees and committee members as of December 31, 2017 were as follows:

Audit & Compliance Committee

D. Brett Sanford, Chair
Rocio Summers
Andrea P. Wolcott
Daniel G. Gomez, ex officio
(Thomas J. Risse, Staff)

Executive Committee

Daniel G. Gomez, Chair
Andrea P. Wolcott, Vice Chair
and Secretary
Patricia R. Richards
Albert R. Zimmerli
(Kristin R. McCullagh, Staff)

Finance Committee

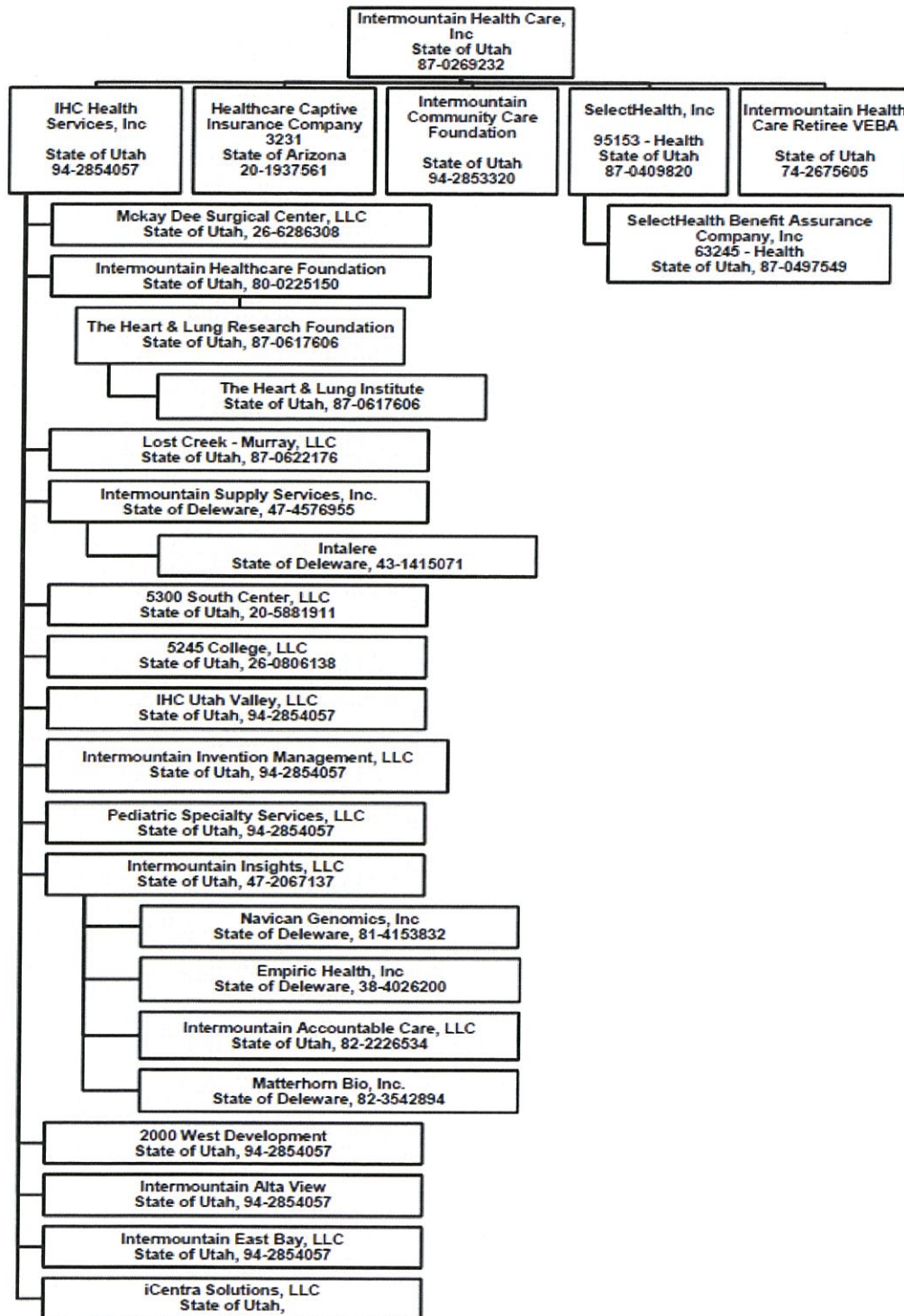
Andrea P. Wolcott, Chair
Mark R. Briesacher, MD
Spencer P. Eccles
Gregory M. Johnson
D. Brett Sanford
Rocio Summers
Daniel G. Gomez
(Thomas J. Risse, Staff)

Investment Committee

Albert R. Zimmerli, Chair
Douglas C. Black
Jane Carlile
Spencer F. Eccles
A. Marc Harrison
Steve D. Huebner
Roy S. Jespersen
Kent Misener
Matthew Packard
Steven Thorley
Scott Anderson, ex officio
Daniel G. Gomez, ex officio
(Gregory M. Johnson, Staff)

Holding Company

The Company is wholly owned and controlled by SelectHealth, which is owned and controlled by Intermountain. An organizational chart illustrating the holding company system as of December 31, 2017 follows:



TERRITORY AND PLAN OF OPERATION

The Company is licensed and authorized to conduct life, accident and health insurance business in the states of Utah and Idaho.

The Company and SelectHealth have contracted with a national insurer to support an arrangement that provides coverage to employees participating in group plans that live outside of the SelectHealth service area, for which SelectHealth provides in-area coverage. The Company also offers stop-loss insurance to SelectHealth's self-insured groups. In addition, the Company writes short-term individual plans of three (3) months or less in duration.

REINSURANCE

Assumed

As of the examination date, a 100% quota-share agreement with National Health Insurance Company was in effect, covering employer group members residing outside SelectHealth's service area.

Ceded

As of the examination date, an excess of loss reinsurance agreement with HM Life Insurance Company was in effect. The Company's retention was the first \$500,000 to \$1,000,000 of loss incurred depending on hospital used, per covered person subject to a \$2,000,000 annual maximum. As of July 1, 2018, the Company's retention is the first \$2,000,000 of loss incurred for each covered person per contract year. Reimbursements are no longer subject to an annual maximum. As in the prior agreement, the reinsurer assumes 90% of eligible losses (50% of non-approved transplants) in excess of the Company's retention.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2017. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

SELECTHEALTH BENEFIT ASSURANCE COMPANY, INC.
BALANCE SHEET
as of December 31, 2017

ASSETS

	Net Admitted Assets
Bonds	\$ 21,564,397
Cash and short-term investments	7,378,603
Investment income due and accrued	118,522
Net deferred tax asset	12,000
Total Assets	<u>\$ 29,073,522</u>

LIABILITIES, CAPITAL AND SURPLUS

	Current Year
Claims unpaid	\$ 7,596,000
Unpaid claims adjustment expenses	3,000
Aggregate health policy reserves	775,000
General expenses due or accrued	618,283
Current federal and foreign income tax payable and interest	2,000
Amounts due to parent, subsidiaries and affiliates	170,664
Payable for securities	2,849,429
Total Liabilities	<u>\$ 12,014,376</u>
Aggregate write-ins for special surplus funds	13,000
Common capital stock	1,000,125
Gross paid in and contributed surplus	1,250,000
Unassigned funds (surplus)	14,796,021
Total Capital and Surplus	<u>17,059,146</u>
Total Liabilities, Capital and Surplus	<u>\$ 29,073,522</u>

SELECTHEALTH BENEFIT ASSURANCE COMPANY, INC.
STATEMENT OF REVENUES AND EXPENSES
for the Year Ended December 31, 2017

	Total
Net premium income	\$ 38,413,437
Change in unearned premium reserves and reserve for rate credits	175,181
Aggregate write-ins for other non-health revenues	3,892
Total revenues	<u>\$ 38,592,510</u>
Hospital and Medical:	
Hospital/medical benefits	221,976
Other professional services	34,267
Emergency room and out-of-area	65,012
Aggregate write-ins for other hospital and medical	4,171,594
Total hospital and medical expenses	<u>\$ 4,492,849</u>
Less:	
Net reinsurance recoveries	<u>(26,540,484)</u>
Total Hospital and Medical	<u>\$ 31,033,333</u>
Claims adjustment expenses	155,032
General administrative expenses	5,429,691
Total underwriting deductions	<u>\$ 36,618,056</u>
Net underwriting gain or (loss)	<u>\$ 1,974,454</u>
Net investment income earned	385,557
Net realized capital gains (losses)	<u>(23,209)</u>
Net investment gains (losses)	<u>\$ 362,348</u>
Net income or (loss) after capital gains, before federal income taxes	<u>\$ 2,336,802</u>
Federal and foreign income taxes incurred	805,000
Net income (loss)	<u><u>\$ 1,531,802</u></u>

SELECTHEALTH BENEFIT ASSURANCE COMPANY, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2014 through 2017

	2014	2015*	2016*	2017*
Capital and surplus, December 31, prior year	\$ 13,081,693	\$ 13,987,850	\$ 14,979,213	\$ 16,029,133
Net income	814,772	2,205,983	1,227,556	1,531,802
Change in net unrealized capital gains (losses)	(2,693)	(7,868)	13,045	
Change in net deferred income tax	95,000	(214,000)	(2,000)	(4,000)
Change in nonadmitted assets	(922)	(992,752)	(188,681)	(497,788)
Net change in capital and surplus for the year	906,157	991,363	1,049,920	1,030,014
Capital and surplus, December 31, current year	<u>\$ 13,987,850</u>	<u>\$ 14,979,213</u>	<u>\$ 16,029,133</u>	<u>\$ 17,059,147</u>

* Per the regulatory financial statements filed with the Utah Insurance Department.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as of December 31, 2017 as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There are no comments on financial statement items as of December 31, 2017 as a result of the examination.

SUBSEQUENT EVENTS

There were no material subsequent events noted for inclusion in this report.

ACKNOWLEDGEMENT

T. Michael Presley, FSA, MAAA, Consulting Actuary, of Risk & Regulatory Consulting, LLC, performed the actuarial phases of the examination. Kristina Gaddis, CFE, CISA, AES, Senior Examiner, of Risk & Regulatory Consulting, LLC, performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, supervised the examination. In addition, Luze Pierre, MBA, CFE (Fraud), Financial Examiner, and Cambria Shore, Financial Examiner, of the Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,



David L. Flores, CPA, CFE, PIR
Examiner-in-Charge
Utah Insurance Department